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Matching on T Examining the Business Case

Session Participants

- Alan Hutton – Vice Chairman and Executive Director, CCMA
- Maxime Paré – Senior Legal Counsel, Market Regulation, OSC
- Jenny Tsouvalis – Vice President, Investment Operations & Applications, OMERS
- Louis Lesnika – Assistant Vice President, Trade Settlements, CIBC Mellon
- Lorne Rintoul – Vice President Securities Operations, Scotia Capital Inc.





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Matching on T

Alan Hutton

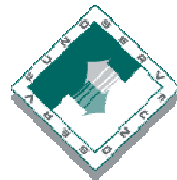
Vice Chairman and Executive Director, CCMA



CCMA Members & Observers



CANADIAN BANKERS ASSOCIATION
Building a Better Understanding



Introduction

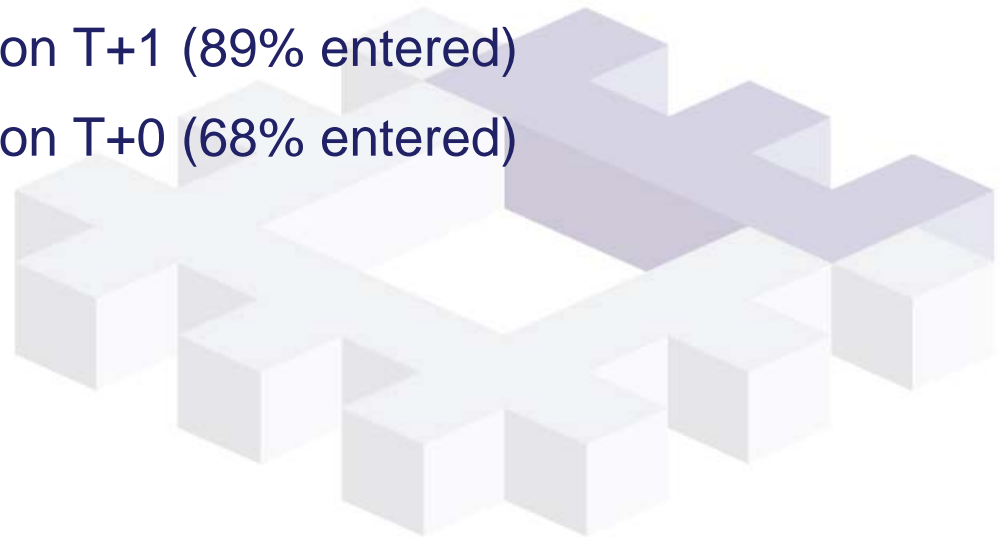
- 1995 G30 drives settlement compression from T+5 to T+3
- 1999 CSA monitors Y2K preparation
- 2000 US announces intentions to compress settlement to T+1
CCMA founded to coordinate Canadian response
- 2001 9/11 highlights BCP & trade confirmation issues
- 2003 Global commitment to T+1 settlement wanes
G30 global report calls for matching on T+0
Industry & regulatory agreement to pursue BCP & STP
- 2004 T+0 trade matching chosen as STP proxy
CSA publish STP paper and NI 24-101 for comment
- 2006 CCMA & industry work with CSA to finalize NI-24-101

Introduction

- Jan 07 Final version of NI 24-101 published
- Apr 07 National Instrument 24-101 – enacted
- July 07 CDS reports by target times
- Oct 07 Counterparty attestations required
Performance measurement begins – 80% T+1 noon
- Nov 07 CCMA requests interim target relief
- Dec 07 First reporting period ends – filing within 45 days
- Jan 08 Matching targets increase to 90% T+1 noon
- Apr 08 CSA announces revised schedule for targets
90% T+1 noon matching target extended to Q2 - 2010
- July 10 Matching targets increase to 70% T+0 midnight
- Jan 12 Matching targets increase in phases to 95%

Current Status

- Target is 90% matched by noon on T+1
- 1st Quarter 2008 performance (lower of value or volume)
 - 74% matched by noon on T+1 (85% entered)
 - 81% matched by midnight on T+1 (89% entered)
 - 35% matched by midnight on T+0 (68% entered)





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A Regulatory Perspective

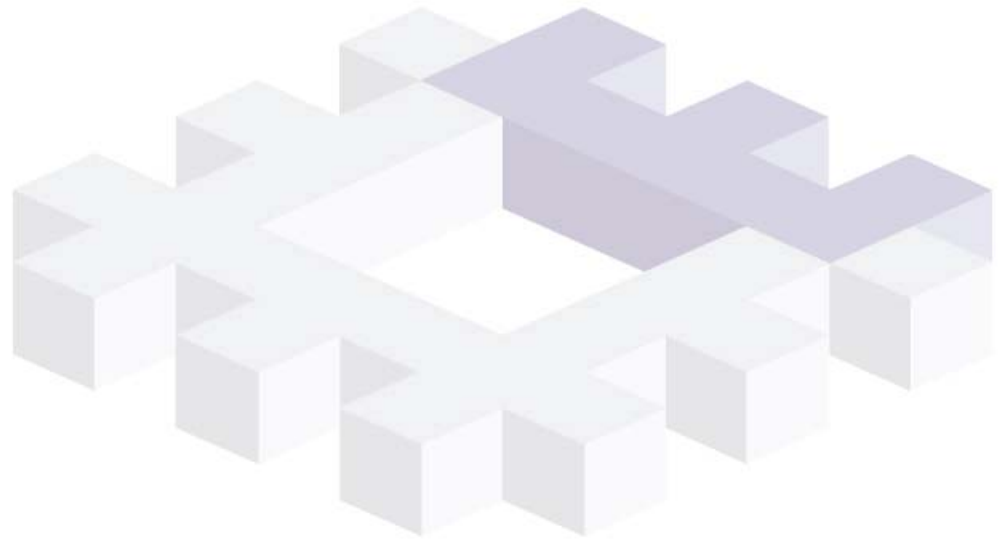
Maxime Paré, Senior Legal Counsel, Market Regulation,
OSC



NB: My comments may not necessarily reflect the views of the OSC/CSA

NI 24-101 Trade Matching Rule

- Trade matching parties must have policies and procedures designed to achieve matching of institutional trades as soon as practical, but no later than:
 - noon on T+1 until June 2010
 - midnight on T+0 after that
- Key concepts:
 - matching
 - DAP/RAP trade
 - institutional investor
 - trade-matching party



Key Features of NI 24-101

- Scope of NI 24-101's matching rule – applies generally to equity and debt trades that settle on T+3
- Documentation requirement – trade-matching parties must confirm policies and procedures in place via “trade-matching agreement” or “trade-matching statement”
- Flexibility for trades from non-western-hemisphere institutional investors



Industry Consultation

- CSA Staff Notice 24-304 – CSA-Industry Working Group formed May 2007
- Participation from sell-side, buy-side, custodians, CCMA, IIAC, IDA, CDS
- Industry consultations continuing
- CSA Staff Notice 24-305 – FAQs
- Broad range of questions on matching requirements



NI 24-101 Exception Reporting

- Compliance monitored through quarterly:
 - exception reporting of dealers and advisers
 - reporting of CDS and MSUs
- Registrants complete exception report for quarter if targets not met (described later)
- Registrants must report causes of failure to match on time and actions taken to correct problems
- CSA Staff Notice 24-306 – online exception reporting system



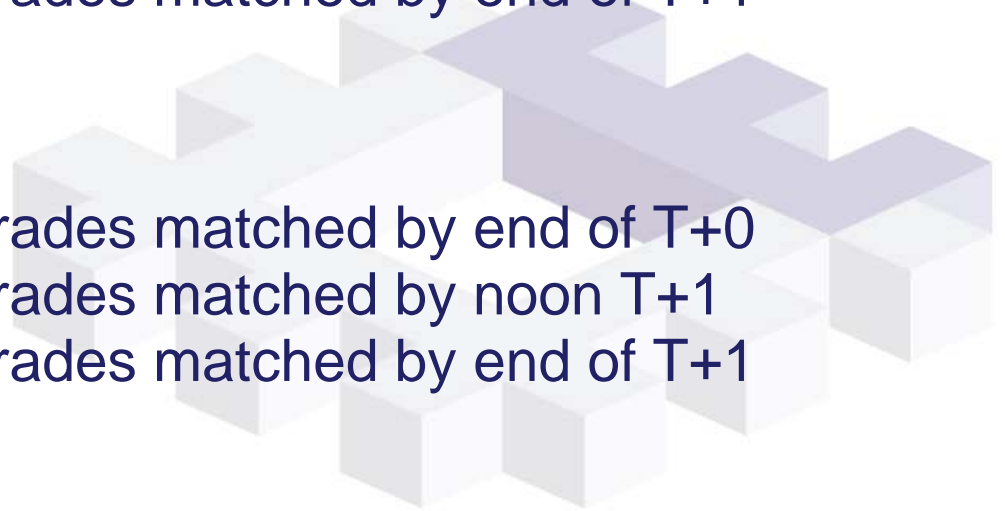
Deferring T+0 Matching

- CSA Notice 24-307 – CSA decision to extend transitional phase-in period by additional 24 months
- CSA blanket orders and OSC local rule 24-502
- New exception reporting requirements:

up to Q2 – 2010	Noon T+1	if less than 90%
Q3 & Q4 – 2010	Midnight T+0	if less than 70%
Q1 & Q2 – 2011	Midnight T+0	if less than 80%
Q3 & Q4 – 2011	Midnight T+0	if less than 90%
2012 & thereafter	Midnight T+0	if less than 95%

Has NI 24-101 Improved the Industry's Trade Matching Performance?

- Rule is having positive effect
- Based on combined equity / debt trading volume:
 - April 2004
 - 3% of institutional trades matched by end of T+0
 - 47% of institutional trades matched by end of T+1
 - March 2008
 - 35% of institutional trades matched by end of T+0
 - 78% of institutional trades matched by noon T+1
 - 86% of institutional trades matched by end of T+1



NI 24-101 Trade Settlement Rule

- Dealers must have policies and procedures designed to facilitate settlement of trades by standard settlement date
- Rule strengthens general settlement cycle rules of marketplaces / SROs – generally T+3
- Whether appropriate policies and procedures exist may be factor in establishing UMIR compliance, e.g. delivery requirements for short sales





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A Buy-Side Perspective

Jenny Tsouvalis, VP Investment Operations &
Applications, OMERS Administration Corporation



Benefits for Buy Side Firms in Shorter Matching

- Achieve operational efficiency
- Lower operational risk & costs
- Eliminate manual intervention and reduce errors
- Greater reliability, efficiency and accuracy
- Handle greater transaction volumes



Benefits for Buy Side Firms in Shorter Matching

- Allow for more effective cash management
- Ensures book of record accuracy on a timely basis
- Access to timely information for effective decision making
- Achieving up to date, timely and accurate reporting (daily & real time)
- “Nothing good occurs between trade & settlement date” as depicted by recent market volatility

Benefits for Buy Side Firms in Shorter Matching

Operational Efficiency includes:

- No duplicative or manual processes with potential for errors
- Less opportunity for settlement failures
- Less opportunity for failures in securities lending
- Focus more on analysis vs manual processing



Benefits for Buy Side Firms in Shorter Matching

Access to timely information includes:

- Up to date investment reporting for Portfolio Managers
- Greater ability to access products in a timely manner
- Ability to achieve best execution
- Greater opportunity for timely decision making



Challenges for Buy Side Firms in Shorter Matching

- Automated systems required
- Automatic transmissions required to Custodians
- Integrated systems between front & back office eliminating manual rekeying
- Structured data required for quality & accuracy
- Structured & defined processes to achieve effective timelines



Approaches for Buy Side Firms in Achieving Shorter Matching

Focus on:

- One point of entry for trading, eliminating replication
- Link front end trading processes to middle & back end operational functions
- Determine the various approaches to enlist Order Management systems (OMS) & Virtual Matching Utilities (VMU's) in the workflow structure
- Robust data security master files with key attributes
- Ongoing monitoring & assessment of bottlenecks & issues



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A Custodian Perspective

Louis Lesnika, Assistant Vice President Trade Settlements,
CIBC Mellon Global Securities Services Company



Settlement Standards Around the World

Comparison of equity settlements in 81 countries

- 5 countries have equity settlement standards set to T+1
- 15 countries have equity settlement standards set to T+2
- 61 countries have equity settlement standards set to T+3 or greater



Preparing to Match on Trade Date (T+0)

Changes Custodians will need to make

- Continue working with our clients to improve STP rates
- Communicate with our clients the new timelines for receiving trade instructions on Trade date (T)
- After hours support by Sell Side, Buy Side and Custodians



Challenges to Matching on Trade Date (T+0)

Challenges include

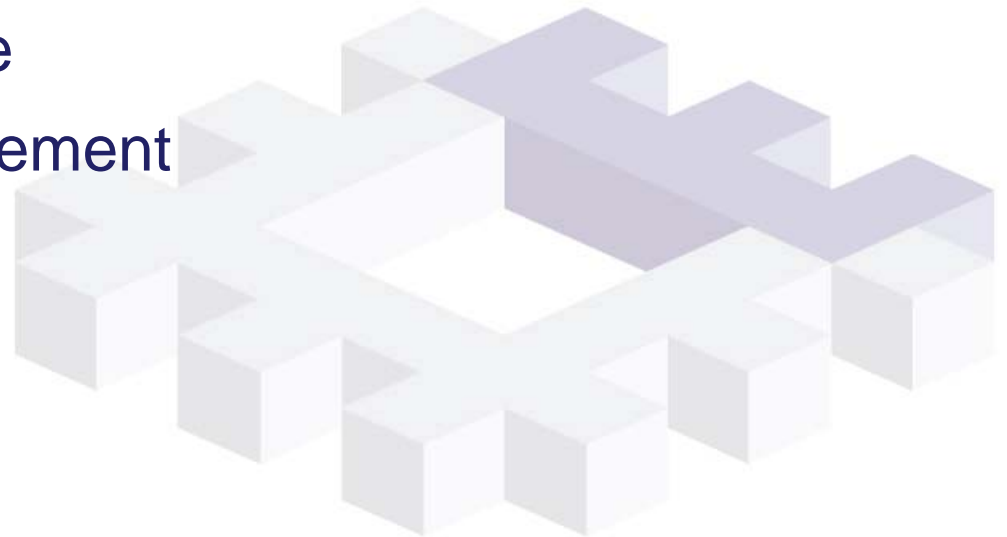
- Improving STP rates for all our clients
- Work with clients to “Axe the Fax”
- Timing of allocation (end of day bulge)
- System synchronization between parties
- Prolonged trading hours



Benefits from Matching on Trade Date (T+0)

Benefits include

- Fewer “Exceptions” for staff to review on settlement date
- Fewer fails
- Improved Client Service
- Readiness for T+1 settlement





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A Sell-Side Perspective

Lorne Rintoul, Vice President Securities Operations,
Scotia Capital Inc.



Current Compliance with 24-101

- Definite improvement has been made over the past year
- Industry Results:

	<u>March '07</u>	<u>March '08</u>	<u>Improvement</u>
Submitted T+1	76% (Midnight)	87% (Noon)	+14%
Matched T+1	60% (Midnight)	78% (Noon)	+30%
Matched T+0	18% (Midnight)	35% (Midnight)	+94%

- Not compliant with current threshold of 90% matched by T+1 Noon (-3% submission / -12% match)
- A major gap between matching by T+1 Noon and T+0 EOD (-43%)

Benefits Attained

- Increased STP rates / reduced manual processing = increased efficiency
 - But difficult to quantify as corresponding expense savings not yet seen
- More timely matching = increased comfort transactions will settle
 - But no guarantee as trades not locked in
- Probably fewer fails
 - But not material as fails not a problem
- Positioned for move to T+1 Settlement Cycle
 - But no longer a priority to US
- Improved service to buy-side clients
 - But not yet determined



Costs Incurred

One-time

- Development
 - Service providers - real-time vs batch
 - Order Management Systems (other broader benefits)
 - Client / CSA reporting

Ongoing

- Infrastructure / HR
 - Exception monitoring / processing
 - Client / CSA reporting
- Increased post-trade electronic communication (SS&C, OMGEO)



Further Benefits of Moving to Matching on T

- Fully positioned for T+1 Settlement Cycle
 - But still not seen as a priority to US market.
- Lower risk
 - But difficult to quantify any benefit without trades being locked in or a move to a shortened settlement cycle
- Challenge and increased cost of being compliant raises the priority of moving to Custodian Block Settlement Processing to reduce costs
 - This may drive additional benefits

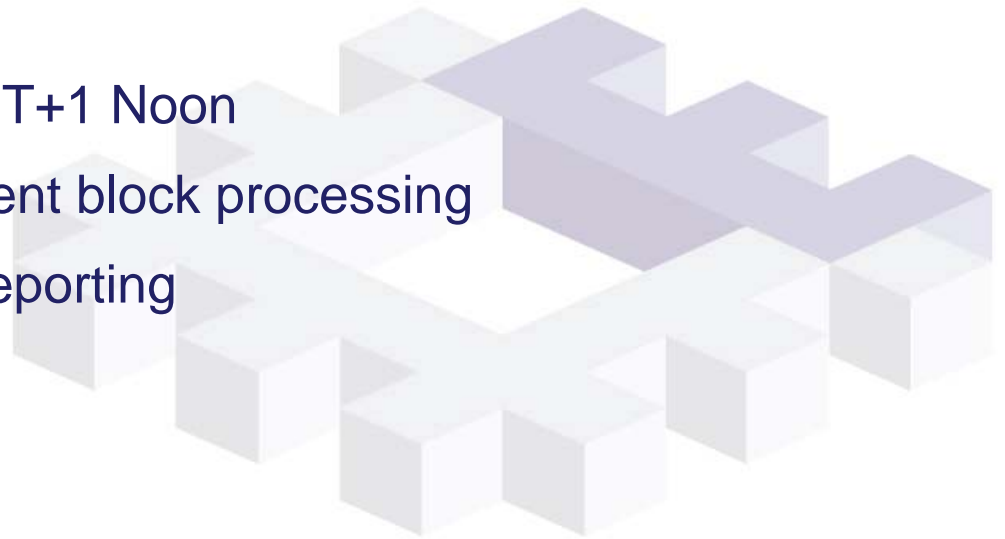
At What Further Costs

- Further one-time development costs
 - Order Mgt. Systems
 - Work already completed may have positioned us for T+0 matching
- Further increase in ongoing costs
 - Infrastructure / HR
 - Increased administration to address exception processing and reporting and non-compliant clients
 - Post-trade communication
 - Use of electronic post-trade communications processes would continue to expand
- Client Frustration



Summary

- Applaud the recent CSA decision to extend the target of matching 90% by Noon T+1 until the end of June 2010
- It will provide additional time to assess industry wide benefits and costs associated with a move to Matching on Trade Date
- In the mean time focus on
 - Attaining 90% matched by T+1 Noon
 - Move to custodian settlement block processing
 - Standardized, consistent reporting



Questions?





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